EYELOGIC SYSTEMS INC.

Seeing the future...

ANNUAL REPORT 2006

2006

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MANAGEMENT'S DISCUSSION & ANALYSIS

Information contained in the Management discussion and Analysis is presented on the same basis as the consolidated financial statements and was prepared in accordance with Canadian generally accepted accounting principles (GAAP). The document presents the views of management as at April 25, 2007. Additional information on Eyelogic Systems Inc. can be found on the Company's website at www.eyelogic.com and on SEDAR at www.sedar.com.

Methodology for the analysis of results

Management evaluates the Companys performance on a reported basis, as presented in the financial statements.

Cautionary note regarding forward-looking statements

The Management Discussion and Analysis contains forward looking statements. A statement we make is forward looking when it uses what we know today to make a statement about the future. Forward looking statements may include words such as anticipate, believe, could, expect, intend, may, objective, plan and will. The forward looking statements contained or incorporated by reference in this MD&A are not guarantees of future performance and involve certain risks and uncertainties that are difficult to predict. Eyelogic Systems Inc. cautions readers against placing reliance on forward -looking statements when making decisions, as the actual results could differ appreciably from the opinions, plans, objectives, expectations, forecasts, estimates and intentions expressed in such forward -looking statements, due to various material factors. These factors include, among other things, capital market activity, changes in government monetary, fiscal and economic policies, changes in interest rates, inflation levels and general economic conditions, legislative and regulatory developments, competition, credit ratings, scarcity of human resources and technological environment. The foregoing list of factors is not exhaustive.

MANAGEMENT'S DISCUSSION AND ANALYSIS
EYELOGIC SYSTEMS INC.

Summary of Financial Results

OVERVIEW OF 2006

Eyelogic Systems Inc. is reporting net diluted earnings per share of 0.09 cents for the year ended December 31, 2006. This compares with 0.15 cents per share for the year ended December 31, 2005. Income from operations decreased to $563,000 from 2005 income of $696,000, a 19% decrease. The decrease in profitability is entirely the result of the Company having to suspend marketing in Canada as a result of a Health Canada edict that required that the Company acquire a Class II medical device license prior to resuming marketing operations in Canada. The impact of the cessation of marketing was the only thing that prevented the Company from having a record year. The positives that came as a result of the shut down was that the Campany now has a Class II medical device and as a result of not being able to focus on the Canadian market announced in November our biggest sale ever for 80 systems to a French Company. The board of directors approved an increase in the Quarterly dividends per common share from 2 cents per share to 3 cents per share effective for the second quarter of 2006. The Company continued to pay the dividend in spite of the shutdown as management believes that the effect of the shutdown was only a temporary inconvenience.

MATERIAL EVENT

In September 2006 the Company received a cease trading order from Health Canada. The grounds for the cease trade order were based on Health Canada's requirement that the hardware and software the Company sells requires a Class II device license (risk-based classification system for medical devices). The Company did not have the required Class II license and immediately ceased sales of its eye testing device. Management committed to co-operate with Health Canada. The drop in sales negatively affected the fourth quarter and the annual results. It is important to note that Health Canada's determination of Class II status is an industry wide change for the Canadian market. Because of this new determination, all other manufacturers who wish to sell their devices in Canada will also need to apply and be granted licenses for their devices.

Health Canada requires that all manufacturers of Class II, III, and IV medical devices be ISO 13485 certified before granting a medical device license. The Company achieved its ISO rating in early 2007 and immediately applied for its Class II medical device license. Health Canada granted the Class II device license in February 2007.

Management views this material event as a positive development which has further strengthened the Company's position in global markets.

FINANCIAL IMPACT OF THE MATERIAL EVENT

In compliance with Health Canada's stop sale request, the Company did not sell any eye testing devices in the fourth quarter of 2006. Management estimate that the cost to the Company to be somewhere between $500,000 and $600,000 in sales revenue. The corresponding effect on net earnings was estimated to be approximately $150,000.

MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
EYELOGIC SYSTEMS INC.

SUBSEQUENT DEVELOPMENTS

In early December 2006 the Company received confirmation of its largest order to date, the sale of 80 units to a French company with an option for another 70 units. As at April 25, 2007 the Company had shipped and invoiced 80 units. This deal is a significant event for the Company. For many years the Company has been fostering business relationships into the chain store markets. This France customer is a large scale optical retail chain with approximately 850 locations in Europe. Now that we have one large chain customer under our belt, we look forward to using this significant sales event to spur additional retail chains throughout Canada, USA, and Europe.

THE FINANCIAL HIGHLIGHTS

- Earnings before income taxes decreased by $133,000 (19%) and was primarily due to the Company ceasing operations due to the Health Canada order,
- As expected direct expenses declined in line with decreasing revenues from $690,000 to $469,000 a decrease of 32%,
- Total income tax expense relating to operations stood at $280,335 (49.73% effective tax rate) for 2006, compared to $277,000 for 2005 (39.86% effective tax rate). The expense includes the effect of certain tax items detailed in the tax note of the consolidated financial statements.

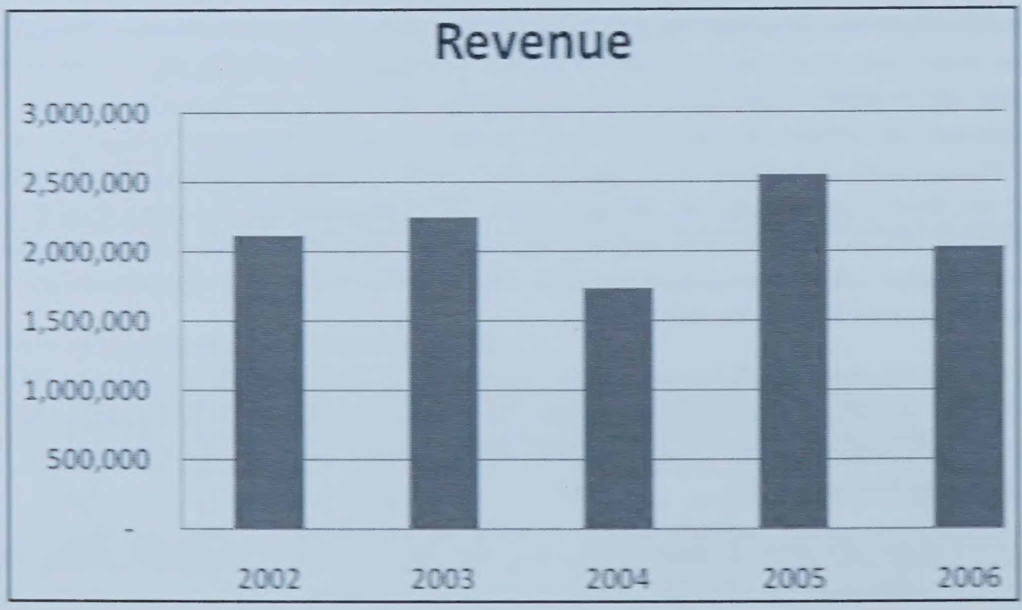
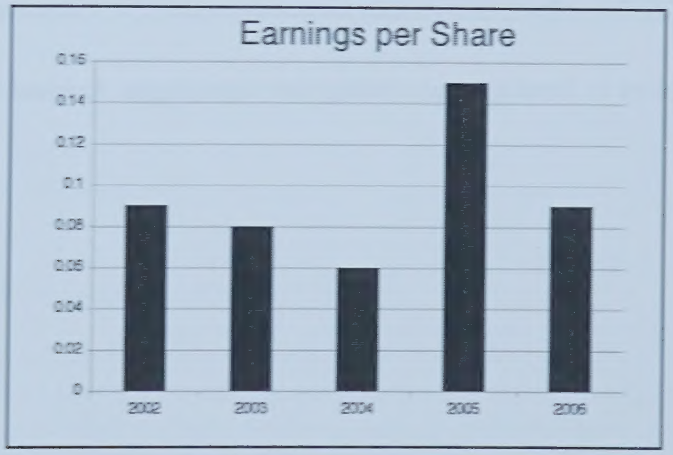


TABLE 1

Results for the year ended December 31 (in thousands of dollars)

	2006	2005	2004	Variation 05-06
Operating revenue	2,021	2,412	1,737	(19%)
Other income	244	94	13	159%
Direct expenses	(469)	(690)	(462)	(32%)
Operating expenses	(960)	(744)	(715)	29%
Amortization	(273)	(376)	(325)	(27%)
Income taxes	(280)	(237)	(61)	18%
Income available to common shareholders	283	459	187	(38%)
Average number of common shares				
Basic	3,008	3,008	2,231	(.03%)
Diluted	3,008	3,008	2,231	(.03%)
Net income per common share				
Basic	0.09	0.15	0.06	(40%)
Diluted	0.09	0.15	0.06	(40%)



ANALYSIS OF THE RESULTS

The results for the fourth quarter of 2006 adversely affected the company's results for the year. The decline in sales in the fourth quarter due to Health Canada cease trade order was made up in the first quarter of 2007. Preliminary financial data, as at the date of writing April 9, 2007, support these projections.

OBJECTIVES FOR 2007

Management has set the following three priorities for 2007:

- Continued marketing efforts in Canada, the European Union and the United States,
- Development of our human capital
- Product Development

Continued marketing efforts in Canada, the European Union and the United States

Management's marketing efforts are showing encouraging results. Through attendance at trade shows and direct client contact the Company has generated new business in all three markets. Management is committed to continuing with these efforts.

Development of our human capital

Management is committed to providing the very best working environment and career development opportunities to its staff.

Product Development

Management is committed to developing promising new technologies designed to meet the needs of multiple markets.

FINANCIAL ANALYSIS

TABLE 2
Balance Sheet as at December 31 (in Canadian Dollars)

	2006	2005
ASSETS		
Cash	$ 733,980	$ 659,008
Other receivables	304,476	312,448
Inventory	203,169	235,506
Equipment	1,230,825	1,434,483
Intangibles	108,920	156,374
Investments	36,160	12,760
Other long term assets	11,515	18,082
	$ 2,629,045	$ 2,828,661
LIABILITIES		
Current liabilities	$ 336,234	$ 563,152
Long term liabilities	253,806	255,685
	590,040	818,837
EQUITY		
Share capital	2,230,966	2,230,966
Contributed surplus	77,324	-
Deficit	(269,285)	(221,142)
	$ 2,629,045	$ 2,828,661

CASH RESOURCES

The company continues to generate and accumulate cash reserves from its core business. Cash reserves improved by 11% year on year. Cash resources comprise 59% of the total current assets of the company.

INVENTORY

Inventory is comprised of key components that make up the Company's product lines. The Company keeps the minimum of inventory on hand due to the continually changing downward pricing pressure on the high technology components used. Inventory levels reflect the demand levels the company is experiencing.

OTHER RECEIVABLES

Other receivables are comprised of accounts receivable, prepaid expenses and the current portion of notes receivable. Management is committed to a policy of closely monitoring the Company's risk and exposure in the area of accounts receivable. The Company provided \$43,000 – 14% (2005 - \$16,000 – 6%) as an allowance for doubtful accounts.

CURRENT LIABILITIES

The Company's current liabilities are comprised of accounts payable and accrued liabilities, rental deposits and income tax payable. Due to the poor fourth quarter results the Company's tax liability was less than anticipated. As at April 24, 2007 Revenue Canada has not assessed the Company's 2006 tax payable.

LONG TERM LIABILITIES

The Company's long term liabilities are comprised of future tax liabilities and rent deposits.

SHAREHOLDERS' EQUITY

There were no share movements during the course of the year.

The Company has established a stock option plan for directors, officers, and employees to purchase Class A common shares. Stock options are issued with an exercise price equal to fair value of the Company's common shares on the date of grant. The fair value of the Company's shares is determined by considering the share trading activities, dividend multiples and earnings per share multiples. Stock options have a maximum term of five years and vest one-third on date of issuance and one-third on each of the next two anniversary dates from issuance. At December 31, 2006 the Company had 290,000 options outstanding at an average exercise price of \$1.85.

The Company has established an Employee Share Ownership Plan (ESOP) Under the plan, the Company contributes $1 for each $1 contributed by employees to acquire common shares of the Company. Employee and Company contributions are used to purchase common shares in the open market. The Company contribution is included as an expense in the statement of operations and amounted to $26,495 (2005 - Nil).

QUARTERLY RESULTS

The following table presents the quarterly results for fiscal 2006 and fiscal 2005.

Eight quarters ended Dec 31, 2006

	2006				2005			
	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
Revenue	$ 114	$ 685	$ 809	$ 656	$ 833	$ 622	$ 805	$ 411
Expenses	(226)	(485)	(558)	(432)	(591)	(412)	(644)	(328)
(Loss) Earnings before income taxes	(112)	200	251	224	242	210	161	83
Net (Loss) Earnings	(170)	129	176	148	159	139	106	55
- Per share - basic	(0.06)	0.043	0.058	0.049	0.054	0.046	0.035	0.018
- Per share - diluted	(0.06)	0.043	0.058	0.049	0.054	0.046	0.035	0.018

The effect of the Health Canada cease trading order is well illustrated in the fourth quarter. As previously stated and announced by press release the Company has now achieved its ISO rating and has earned its Class II certification allowing it to continue selling product into the Canadian market. Management does not expect the fourth quarter results to re-occur.

For the fourth quarter of fiscal 2006, total revenue amounted to $114,000, compared to $833,000 (86% decrease) for the same quarter in 2005. Expenses decreased by only 62% during the same period as the Company maintained current staff levels awaiting the issue of a Class II medical device license.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Critical accounting estimates include inventory, stock-based compensation and contributed surplus.

DIVIDEND POLICY AND PAY OUTS

The Company has a formal dividend policy of paying a quarterly dividend of 3 cents per share.

CONTINGENT LIABILITIES

The company does not guarantee or participate in loans of any type. Management is not aware of any contingent liabilities.

RELATED PARTIES

During the year, the Company entered into transactions with the following related parties:

- Olympia Trust Company and Olympia Financial Group Inc.
- Companies controlled by directors of Eyelogic Systems Inc.
- Companies controlled by employees and management of Eyelogic Systems Inc.

The transactions are in the normal course of business operations. Details of the transactions and account balances with the related parties are detailed in note 9 of the annual audited financial statements.

NEW BUSINESS VENTURES

France

During the year under review the Company took its first steps into a new market; Europe. These marketing efforts have resulted in the Company securing a company record order from a French Company. The Company anticipates this large order will provide spin-off business in other markets.

USA

The Company continues its' marketing efforts in the US market. We are showcasing our technology to US customers at a rate of over one trade show per month. Although sales have not been as quick to happen as they have in Europe, the Company is pleased to see continued forward movement in this market.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

CAPITAL RESOURCES

Management has committed capital resources to realizing its three priorities discussed in "Objectives for 2007". The capital resources committed are restricted to cash and are determined by management on an as needed basis.

INVESTMENTS

The Company's investment in private companies has no risk or benefit to the Company and is recorded at cost. While the Company controls the Board of Directors of each private company, agreements it has entered into with each of them impose a severe long-term restriction on the Company's right and ability to obtain future economic benefits from the resources of the private companies, except for an annual management fee.

The Company is invested in 61 (2005 - 22) private companies. The Company purchases controlling interests in exchange for an annual fee from each Investee. The annual management services fee from each Investee is the greater of $2,500 or 0.5% on the first $5,000,000 and 0.25% on any amount over $5,000,000 of the capital raised by each Investee.

The purpose of the Company's investment in the private companies is to enable the debt securities of the private companies to be RRSP eligible.

LIQUIDITY

It is management's policy to maintain a healthy current ratio. The ratio is 3.69:1 (2005 – 2.14:1) and indicates that the company will not have difficulty in meeting obligations associated with financial liabilities.

RISK FRAMEWORK

The Company is exposed to various types of risks owing to the nature of the commercial activities it pursues. Management has identified the following risks:

Credit risk

Credit risk arises from the company's customers. There is always a potential that a customer will fail to perform their financial obligations. The Company has a significant number of customers which minimizes the concentration of risk.

Currency risk

Currency risk corresponds to the loss in Canadian dollars that the Company may incur due to unfavorable fluctuations of exchange rates. It originates mainly from the purchase of certain high technology precision instrumentation required in the process of manufacture in currencies other than the Canadian dollar.

Management has identified the following risks which could negatively affect the Company's future strategies and objectives:

- The risk that management implemented internal control fail to detect errors, omissions or fraud,
- The risk that new markets may fail to produce estimated revenue's,
- The risk that the regulatory environment in which the Company carries out commercial activities may change.

CONTROLS AND PROCEDURES REGARDING FINANCIAL INFORMATION

In order to ensure that the financial statements and the Management Discussion and Analysis present fairly, in all material respects, the financial position of the Company and the results of its operations, management is responsible for establishing and maintaining disclosure controls and procedures, as well as internal control over financial reporting.

The Company has adopted National Instrument 52-109 on the certification of issuers' annual and interim financial information and has reviewed its financial reporting process. The Company has chosen to employ an internal auditor whose is responsible for ensuring that the Company has complied with the controls and procedures regarding financial information. This undertaking has enabled the President/Chief Executive Officer and the Chief Financial Officer to attest that the design of the internal controls with regard to financial information is efficient. The President and Chief Executive Officer and the Chief Financial Officer also assessed that the disclosure controls and procedures were adequate, as at December 31, 2006, so as to provide reasonable assurance that the financial information to be disclosed is both complete and reliable. During the year ended December 31, 2006, no changes to internal controls over financial reporting had or are reasonably likely to materially affect internal controls over financial reporting.

ACCOUNTING POLICIES

The financial information contained in the Consolidated Financial Statements and the Management Discussion and Analysis is prepared using a framework of accounting policies developed from the nature of the commercial activities that company pursues. Some accounting policies due to their nature require further explanation.

Equipment capitalization policies

The Company capitalizes certain identified salary expenses identified in the development of in-house computer software. The company makes use of formula to determine which portion of a salary is to be capitalized. The method and process applied is consistent with previous years.

Dividends

In common with other listed Companies the Company has determined that it is not carrying a balance in its Low Rate Income Pool and therefore is free to pay eligible dividends to its shareholders.

EVALUATION OF FINANCIAL INSTRUMENTS

In April 2005, the Accounting Standards Board issued new accounting standards dealing with the recognition, measurement and disclosure of financial instruments, hedges and comprehensive income, together with many consequential amendments throughout the CICA Handbook. These new standards are effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. The Company will adopt the provisions of Section 3855 of the CICA Handbook with effect from its first quarter results for 2007. The Company is presently evaluating its assets and liabilities and classifying them.

INCOME TAX

Future income tax liability reflect management's estimate of the value of loss carry-forwards, minimum tax carry-overs and other temporary differences. The determination of the liabilities' value is based on assumptions related to results of operations of future fiscal years, timing of reversal of temporary differences and tax rates on the date of reversals, which may well change depending on governments' fiscal policies.

FUTURE CHANGE TO ACCOUNTING POLICIES

Sections 1530, 3855 and 3865of the CICA Handbook

The Company is presently reviewing the impact of these standards. The exact impact will depend on certain choices to be made along with the adoption of these new sections.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS
EYELOGIC SYSTEMS INC.

Fiscal years ended December 31, 2006 and 2005

The accompanying financial statements and all of the data included in this annual report have been prepared by and are the responsibility of the board of directors and management of the Corporation. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada and reflect management's best estimates and judgments based on currently available information. The Corporation has developed and maintains a system of internal controls in order to assure, on a reasonable and cost effective basis, the reliability of its financial information.

The financial statements have been audited by Kenway Mack Slusarchuk Stewart LLP, Chartered Accountants. Their report outlines the scope of their examination and opinion on the consolidated financial statements.

Rick Skauge	Dewar McCarthy
Chief Executive Officer	Chief Financial Officer

Calgary, Canada, April 17, 2006

AUDITORS' REPORT
EYELOGIC SYSTEMS INC.

To: The Shareholders of
Eyelogic Systems Inc.

We have audited the balance sheets of **Eyelogic Systems Inc.** (the "Company") as at December 31, 2006 and December 31, 2005 and the statements of operations, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial positions of the Company as at December 31, 2006 and December 31, 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Kenway Mack Slusarchuk Stewart LLP

Calgary, Alberta
March 20, 2007

Kenway Mack Slusarchuk Stewart LLP
Chartered Accountants

FINANCIAL STATEMENTS
& NOTES

Balance Sheet
EYELOGIC SYSTEMS INC.

DECEMBER 31		2006		2005
ASSETS				
CURRENT				
Cash and cash equivalents	$	**733,980**	$	659,008
Accounts receivable		**260,705**		270,410
Inventory		**203,169**		235,506
Prepaid expenses		**5,945**		6,510
Current portion of notes receivable (note 3)		**37,826**		35,528
		1,241,625		1,206,962
NOTES RECEIVABLE (note 3)		**11,515**		18,082
EQUIPMENT (note 4)		**1,230,825**		1,434,483
INTANGIBLE ASSETS (note 5)		**108,920**		156,374
INVESTMENTS (note 6)		**36,160**		12,760
	$	**2,629,045**	$	2,828,661
LIABILITIES				
CURRENT				
Accounts payable and accrued liabilities	$	**268,586**	$	309,979
Income taxes payable		**15,058**		178,294
Current portion of rent deposits		**-**		23,758
Current portion of capital lease obligation		**52,590**		51,121
		336,234		563,152
RENT DEPOSITS (note 7)		**46,003**		48,045
FUTURE INCOME TAXES (note 8)		**207,803**		207,640
		590,040		818,837
SHAREHOLDERS' EQUITY				
SHARE CAPITAL (note 10)		**2,230,966**		2,230,966
CONTRIBUTED SURPLUS (note 11)		**77,324**		-
DEFICIT		**(269,285)**		(221,142)
		2,039,005		2,009,824
	$	**2,629,045**	$	2,828,661

COMMITMENTS (note 13)

Approved on behalf of the Board

Director ______________________ Director ______________________

See accompanying notes to the financial statements

Statements of Operations
EYELOGIC SYSTEMS INC.

YEAR ENDED DECEMBER 31	2006	2005
REVENUE (Schedule 1)	**$ 2,020,750**	$ 2,412,049
DIRECT EXPENSES (Schedule 2)	**469,400**	690,343
GROSS MARGIN	**1,551,350**	1,721,706
EXPENSES		
General and administration (Schedule 3)	**928,175**	709,455
Amortization of equipment	**225,127**	286,468
Amortization of intangible assets	**47,454**	89,629
Research and development	**30,029**	28,543
Interest on long term debt	**1,034**	5,275
	1,231,819	1,119,370
EARNINGS BEFORE THE FOLLOWING ITEMS	**319,531**	602,336
OTHER INCOME (EXPENSES)		
Interest	**40,653**	20,471
Gain (loss) on sale of equipment	**72,512**	13,831
Gain on foreign exchange	**2,216**	1,355
Loss on sale of investments	**(1,180)**	-
Management services fees received	**394,904**	116,226
Management services fees paid	**(265,425)**	(58,113)
	243,680	93,770
EARNINGS BEFORE INCOME TAXES	**563,211**	696,106
INCOME TAX (RECOVERY) (note 8)		
Current	**280,335**	277,458
Future	**163**	(40,423)
	280,498	237,035
NET EARNINGS	**$ 282,713**	$ 459,071
BASIC AND DILUTED EARNINGS PER SHARE (note 12)	**0.09**	0.15

See accompanying notes to the financial statements

Statements of Deficit
EYELOGIC SYSTEMS INC.

YEAR ENDED DECEMBER 31	2006	2005
DEFICIT, beginning of year	$ (221,142)	$ (439,590)
Net earnings	282,713	459,071
	61,571	19,481
Dividends paid	(330,856)	(240,623)
DEFICIT, end of year	$ (269,285)	$ (221,142)

See accompanying notes to the financial statements

Statements of Cash Flows
EYELOGIC SYSTEMS INC.

		2006		2005
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES				
Net earnings	$	**282,713**	$	459,071
Items not affecting cash				
Amortization of equipment		**225,127**		286,468
Amortization of intangible assets		**47,454**		89,629
Future income taxes		**163**		(40,423)
Gain on sale of equipment		**(72,512)**		(13,831)
Loss on sale of investments		**1,180**		-
Stock-based compensation		**77,324**		-
		561,449		780,914
Change in non-cash working capital items				
Accounts receivable		**9,705**		(177,252)
Income taxes		**(163,236)**		153,138
Inventory		**32,337**		(77,447)
Prepaid expenses		**565**		5,172
Accounts payable and accrued liabilities		**18,764**		160,733
		459,584		845,258
INVESTING ACTIVITIES				
Purchase of equipment		**(195,623)**		(416,810)
Purchase of investments		**(24,600)**		(11,560)
Purchase of intangible assets		**-**		(5,785)
Proceeds from sale of equipment		**246,666**		142,781
Proceeds from sale of investments		**20**		-
Notes receivable issued		**(39,000)**		(54,000)
Notes receivable paid		**43,269**		31,727
Rent deposits received		**11,548**		21,950
Rent deposits paid		**(12,122)**		(12,520)
		30,158		(304,217)
FINANCING ACTIVITIES				
Repayment of capital lease obligations		**(23,758)**		(31,704)
Dividends paid		**(391,012)**		(240,623)
		(414,770)		(272,327)
CHANGE IS CASH POSITION		**74,972**		268,714
CASH AND CASH EQUIVALENTS, beginning of year		**659,008**		390,294
CASH AND CASH EQUIVALENTS, end of year	$	**733,980**	$	659,008
OTHER INFORMATION				
Interest paid	$	**5,807**	$	5,660
Interest received		**40,653**		20,471
Income taxes paid		**443,571**		306,222

See accompanying notes to the financial statements

1. NATURE OF OPERATIONS

Eyelogic Systems Inc. (the "Company") was incorporated under the Business Corporations Act of Alberta. The Company has proprietary and patent rights to a software package that allows technicians to perform eyesight testing. The Company sells and rents computers and ophthalmic equipment that uses the software package.

The Company has several retinal systems set up at customer locations that are connected to ophthalmologists' offices for retinal screening. The Company receives a share in the revenue generated from these systems.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. These financial statements have, in management's opinion, been properly prepared within the framework of the accounting policies summarized as follows:.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. By their nature, these estimates are subject to measurement uncertainty. The effect of changes in such estimates on the financial statements in future periods could be significant. Accounts specifically affected by estimates in these financial statements are inventory, accounts receivable, notes receivable, equipment, intangible assets, accounts payable and accrued liabilities, future income taxes and stock-based compensation.

Cash

Cash consists of balances with financial institutions.

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined using the average method.

Future income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, the Company records future income taxes for the effect of any difference between the accounting and income tax basis of an asset or liability, using the substantively enacted income tax rates. Accumulated future income tax balances are adjusted to reflect changes in income tax rates that are substantively enacted with the adjustment being recognized in earnings in the period that the change occurs. Future tax assets are recognized to the extent that they are more likely than not to be realized.

2. SIGNIFICANT ACCOUNTING POLICIES, continued

Equipment

Equipment is recorded at cost. The Company provides for amortization using the straight-line method at rates designed to amortize the cost of the equipment over its estimated useful life. The annual amortization rates are as follows:

Furniture & fixtures	10 years
Leasehold improvements	5 years
Computer equipment	3 years
Computers held for rent	3 years
Equipment held for rent	10 years
Retinal software	3 years
Ophthalmic equipment	10 years
Rental equipment under capital lease	10 years

One-half the normal rate of amortization is taken in the year of acquisition.

Intangible assets

The Company amortizes intangible assets using the straight-line method as follows:

Product development	10 years
Software rights and patent	10 years
Market development	5 years

Market development costs include legal expenses paid to establish the Company in various Canadian markets. Product development costs include software development costs incurred to design and substantially improve the software. Product development costs are expensed to operations unless they meet specific criteria related to technical, market and financial feasibility, in which case they are deferred and amortized. Amortization is recorded when development is complete and the product is available for use or sale.

One-half the normal rate of amortization is taken in the year of acquisition.

Impairment of long-lived assets

The Company tests for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Recoverability is assessed by comparing the carrying amount to the projected future net cash flows the long-lived assets are expected to generate through their direct use and eventual disposition. When a test for impairment indicates that the carrying amount of an asset is not recoverable, an impairment loss is recognized to the extent carrying value exceeds its fair value.

Revenue recognition

- Rental fee revenue relates to the rental of eye testing equipment and computers under operating leases. Revenue is recognized on a monthly basis as payments come due according to the contracts in place with customers. These contracts are typically for 60 months but may be cancelled by the lessee with one month's notice at any time.

- Equipment and software sales revenue is recognized when equipment is installed on the customers' premises and has been accepted by the customer.

2. SIGNIFICANT ACCOUNTING POLICIES, continued

- Contract support revenue relates to agreements the Company has in place with customers to provide software support. Customers pay the Company for software support on a yearly basis, and revenue is recognized on a prorated basis over the period to which it relates.
- Revenue from sales with extended payment terms are recognized when collectibility is reasonably assured.
- Management services revenue (see note 6) is recognized in the period the services are provided.
- Revenue from retinal screening is recognized in the period the service is provided.

Earnings per share

The calculation of basic earnings per share is based on net earnings divided by the weighted average number of common shares outstanding.

The treasury stock method of calculating diluted per share amounts is used whereby any proceeds from the exercise of stock options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period.

Stock-based compensation

The Company has a stock-based compensation plan, which is described in note 10. Awards of options under this plan are expensed based on the fair value of the options at the grant date. The amount is credited to contributed surplus. Fair values are determined using the Black-Scholes option-pricing model. If the options are subject to a vesting period, the expense is recognized over this period. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital plus the amounts originally recorded as contributed surplus.

Leases

The Company leases certain office space and retail equipment. All leases are reviewed by the Company to determine whether these leases in effect represent the acquisition of an asset and the incurrence of a liability. Leases with these characteristics are recorded as the purchase of an asset by the Company and the related liability is recorded as a capital lease obligation.

Investments

The Company's investment in private companies has no risk or benefit to the Company and is recorded at cost. While the Company controls the Board of Directors of each private company, agreements it has entered into with each of them impose a severe long-term restriction on the Company's right and ability to obtain future economic benefits from the resources of the private companies, except for an annual management fee.

Foreign exchange

Monetary assets and liabilities of the Company which are denominated in foreign currencies are translated at year end exchange rates. Other assets and liabilities are translated at rates in effect at the date the assets were acquired and liabilities incurred. Revenue and expenses are translated at the rates of exchange in effect at their transaction dates. The resulting gains or losses are included in operations.

Dividends

The Company pays eligible dividends unless indicated otherwise.

3. NOTES RECEIVABLE

		2006		2005
Notes receivable	$	49,341	$	53,610
Less current portion		37,826		35,528
	$	11,515	$	18,082

24 notes receivable, (December 31, 2005 – 21) relating to software license agreements ranging from $150 to $6,000 bearing interest at 19.54% per annum with blended monthly payments of $150 to $300 each. The notes have due dates ranging from January 2007 to February 2010 and are personally guaranteed by the purchasers.

In the year ending December 31, 2002, 62 specific notes receivable were sold at their book value for cash proceeds of $232,076. As the notes were sold at book value, no gain or loss on the sale was incurred. Under the terms of the purchase and sale agreement, the Company must pay the purchaser 50% of the outstanding balance of any notes that go into default. The balance of the notes held by the purchasers at December 31, 2006 is $Nil (December 31, 2005 - $6,797).

Target Capital Inc., a Company related by common control, arranged the sale of the notes. The Company acts as a collection agent for Target Capital Inc., (the purchaser), and receives nominal consideration for acting as their agent.

4. EQUIPMENT

				2006	2005
	Cost	Accumulated Amortization		Net	Net
Furniture & fixtures	$ 18,293	$ 6,375		$ 11,918	$ 11,904
Leasehold improvements	7,800	1,170		6,630	3,510
Computer equipment	84,302	65,175		19,127	20,583
Computers held for rent	316,989	248,250		68,739	53,385
Equipment held for rent	1,985,692	897,706		1,087,986	1,284,658
Retinal software	10,032	7,241		2,791	5,343
Ophthalmic equipment	47,897	14,263		33,634	55,100
	$ 2,471,005	$ 1,240,180		$ 1,230,825	$ 1,434,483

5. INTANGIBLE ASSETS

			2006	2005
	Cost	Accumulated Amortization	Net	Net
Market Development	$ 290,312	$ 290,312	$ -	$ 5,210
Patent	10,565	8,620	1,945	3,002
Product Development	176,918	80,030	96,888	114,579
Software rights	234,955	224,868	10,087	33,583
	$ 712,750	$ 603,830	$ 108,920	$ 156,374

6. INVESTMENTS

	2006	2005
Private Company securities, beginning of year	**$ 12,760**	$ 1,200
Purchase of Private Company securities	**24,600**	11,560
Disposals of Private Company securities	**(1,200)**	-
Private Company securities, end of year	**$ 36,160**	$ 12,760

The Company is invested in 61 (2005 - 22) private companies. The Company purchases controlling interests in exchange for an annual fee from each Investee. The annual management services fee from each Investee is the greater of $2,500 or 0.5% on the first $5,000,000 and 0.25% on any amount over $5,000,000 of the capital raised by each Investee. The purpose of the Company's investment in the private companies is to enable the debt securities of the private companies to be RRSP eligible.

7. RENT DEPOSITS

When a customer signs a rental agreement with the Company, the last month rent is collected up front and is recorded as a rent deposit. The current portion of rent deposits represent the amounts due to customers whose rental agreement term is expiring within the next fiscal period.

8. INCOME TAXES

(a) The components of future income tax balances are as follows:

	2006	2005
Future income tax asset - Long term		
Capital losses	**$ -**	$ 26,385
Future income tax liability - Long term		
Carrying amount of equipment and intangible assets in excess of tax basis	**(207,803)**	(234,025)
	$(207,803)	$ (207,640)

The Company has $43,048 in capital losses which may be carried forward indefinitely. As it is not more likely than not that the benefit associated with the capital loss will be utilized, the future benefit of the capital losses are not recognised.

8. INCOME TAXES, continued

(b) The provision for income taxes recorded in the financial statements differs from the amount which would be obtained by applying the statutory rate of 32.12% (2005 - 33.62%) to the earnings for the year as follows:

	2006	2005
Earnings for the year before income tax	**$ 563,211**	$ 696,106
Estimated income tax expense	**180,903**	235,493
Tax effect for expenses that are not deductible for income tax purposes	**28,654**	1,542
Capital loss	**13,827**	-
Change in tax rate	**33,154**	-
Adjustment to tax estimate	**19,528**	-
Other	**4,432**	-
Provision for income taxes	**$ 280,498**	$ 237,035

9. RELATED PARTY TRANSACTIONS

(a) During the year, the Company entered into transactions with the following related parties:

Olympia Trust Company, Common control
Olympia Financial Group Inc., Common control
Companies controlled by the directors of Eyelogic Systems Inc.
Read Brandon Inc., Common control
Read Capital, Common control

(b) Transactions

These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

	2006	2005
Management fees - Controlled by key employees and management	**$ 140,247**	$ 165,824
Rent and office expenses		
Olympia Trust Company	**$ 48,804**	$ 2,613
Olympia Financial Group Inc.	**4,410**	88,366
	$ 53,214	$ 90,979
Transfer agent and filing fees - Olympia Trust Company	**$ 18,646**	$ 17,293
Health plan administration fees - Olympia Trust Company	**$ 1,583**	$ 581

These transactions are in the normal course of operations and have been valued in these financial statements at the exchange amount which is the amount of consideration established and agreed to by the related parties.

9. RELATED PARTY TRANSACTIONS, continued

(c) Accounts receivable include amounts receivable from:

	2006	2005
Companies controlled by the directors	**$ 160**	$ -

Included in accounts receivable is $ 104,959 (2005 - 15,000) relating to management fees due from private companies in which the Company has invested.

These transactions are in the normal course of operations and have been valued in these financial statements at the exchange amount which is the amount of consideration established and agreed by the related parties.

(d) Accounts payable and accrued liabilities include amounts payable to:

	2006	2005
Olympia Trust Company	**$ 6,180**	$ -
Companies controlled by key employees and management for:		
Transfer agency fee	**1,698**	1,315
Management fees	**119,987**	7,515
Bonus	**-**	13,184
Notes collected	**-**	5,203
Companies controlled by directors	**780**	810
Expense reimbursement to an officer of the Company	**81**	191
Bonus payable to two officers of the Company	**-**	6,313
	$ 128,726	$ 34,531

10. SHARE CAPITAL

(a) Authorized

Unlimited number of Class A voting shares
Unlimited number of Class B voting shares
Unlimited number of Class C non-voting common shares
Unlimited number of Class D non-voting common shares

	2006	2005
3,007,786 Class A voting shares	**$ 2,230,966**	$ 2,230,966

(b) Employee Share Ownership Plan

The Company participates in an employee share ownership plan ("ESOP"), which is administered by Olympia Trust Company, a related party by way of common management. The individual has an option on the contribution level up to a set maximum, which the Company matches. These contributions are used to purchase common shares of the Company in the open market. The individual has the option to hold the ESOP account in a registered retirement savings plan account or a non-registered savings plan account. For the year ended December 31, 2006, the Company included an expense in the statement of earnings for contributions of $26,495 (December 31, 2005 - $24,560).

10. SHARE CAPITAL, continued

(c) Stock options

The Company has established a stock option plan for directors, officers, and employees to purchase Class A common shares. Stock options have a maximum term of five years and vest one-third on date of issuance and one-third on each of the next two anniversary dates from issuance. Changes in the number of options, with their weighted average exercise prices are summarized below:

	Outstanding number of options	Average exercise price	Exercisable options
Granted in 2006	290,000	1.85	96,667

The fair value of each option granted is estimated on the date of the grant using the Black-Scholes option pricing model with assumptions of risk free interest of 4%, expected lives of 5 years, volatility of 52 percent, expiry on June 03, 2011. The amount of $ 77,324 (2005 - Nil) has been charged to salary expense with an offsetting credit to contributed surplus.

(d) Dividend policy

On March 10, 2004, the Board of Directors of the Company declared that the Company will pay a quarterly dividend of 2 cents per common share until further notice. On April 6, 2006 the Board of Directors increased the quarterly dividend to 3 cents per common share effective June 30, 2006. The dividends are not cumulative.

11. CONTRIBUTED SURPLUS

	2006	2005
Balance, opening	**$ -**	$ -
Stock-based compensation expense	**77,324**	-
Balance, closing	**$ 77,324**	$ -

12. EARNINGS PER SHARE

Basic earnings per share is calculated using the weighted average number of shares outstanding during the year. Earnings per share is calculated as follows:

	2006			2005		
	Net earnings	**Shares**	**Net earnings per share**	Net earnings	Shares	Net earnings per share
Basic and Diluted	**$ 282,713**	**3,007,786**	**0.09**	$ 459,071	3,007,786	0.15

Options to purchase 290,000 Common Shares at $1.85 per share were outstanding during the second half of 2006, but were not included in the computations of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares. The options, which expire on June 03, 2011 were still outstanding at the end of 2006.

13. COMMITMENTS

a) Operating lease

The Company entered into an operating agreement for the lease of office premises until September 29, 2009.

Future minimum lease payments exclusive of operating costs, by year and in aggregate are as follows:

2007	$ 29,388
2008	29,388
2009	22,041

14. BUSINESS LINE OF CREDIT

The Company has access to a business revolving line of credit to a maximum of $200,000. The interest rate is prime plus 2% and the line of credit is due on demand. At December 31, 2006 the balance in use was nil (2005 - nil). The line of credit is secured by a General Security Agreement covering certain assets of the Company. On February 20, 2007, the amount of the demand revolving credit was increased to $500,000 with minimum advancements/repayments of $50,000.

15. FINANCIAL INSTRUMENTS

Financial instruments consist of recorded amounts of cash and cash equivalents, rental deposits, accounts receivable and notes receivable, which will result in future cash receipts, as well as accounts payable and accrued liabilities which will result in future cash outlays.

The Company is exposed to the following risks in respect of certain of the financial instruments held:

(a) Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company is exposed to credit risk from customers. However, the Company has a significant number of customers which minimizes concentration of credit risk.

15. FINANCIAL INSTRUMENTS, continued

In management's opinion, credit risk is relatively low. Accounts receivable are monitored on a regular basis. Historically, any collection problems encountered by the Company have been resolved by the return of the rental equipment.

(b) Fair value

The Company's carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximates its fair value due to the immediate or short-term maturity of these instruments.

The carrying value of the notes receivable approximate their fair values as interest rates are considered current market rates.

The carrying value of rental deposits aproximate their fair value as the Company is required to pay out the deposit without interest.

The fair value of the amounts due to related companies are less than carrying value, as the amounts are non-interest bearing. The amounts have no terms of repayment therefore the fair value cannot be calculated with any degree of certainty.

(c) Currency risk

Currency risk is the risk to the Company's earnings that arises from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk. The Company is exposed to currency risk on its US$ denominated accounts receivable and accounts payable.

16. COMPARATIVE FIGURES

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year earnings.

17. SUBSEQUENT EVENT

In September 2006 the Company received a cease trading order from Health Canada. The grounds for the cease trade order were based on Health Canada's requirement that the hardware and software the Company sells requires a Class II device license (risk-based classification system for medical devices). The Company did not have the required Class II license and immediately ceased sales of its eye testing device. Health Canada requires that all manufacturers of Class II, III, and IV medical devices be ISO 13485 certified before granting a medical device license. Subsequent to the year end the Company has achieved its ISO rating and was granted its Class II device license in February 2007.

SCHEDULES
EYELOGIC SYSTEMS INC.
December 31, 2006

SCHEDULE OF REVENUE

Schedule 1

	2006	2005
Rental	**$ 1,177,573**	$ 1,185,558
Equipment sales	**612,001**	930,686
Software sales	**123,220**	193,816
Contract support	**70,950**	65,200
Retinal screening	**24,000**	20,060
Other	**13,006**	16,731
	$ 2,020,750	$ 2,412,049

SCHEDULE OF DIRECT EXPENSES

Schedule 2

	2006	2005
Cost of equipment sold	**$ 327,889**	$ 505,206
Selling expenses	**118,164**	110,326
Freight	**23,347**	30,008
	$ 469,400	$ 645,540

SCHEDULE OF GENERAL AND ADMINISTRATION EXPENSES

Schedule 3

	2006	2005
Salaries and consulting	**$ 594,224**	$ 414,922
Professional fees	**83,393**	118,926
Office and miscellaneous	**69,000**	52,562
Rent	**64,093**	51,053
Bad debts	**33,304**	7,700
Transfer agent and filing fees	**23,452**	20,672
Telephone	**22,177**	16,098
Advertising and promotion	**30,772**	12,239
Bank charges and interest	**6,513**	2,080
Business taxes	**717**	2,855
Insurance	**420**	710
Automobile and parking	**93**	8,137
Repairs and maintenance	**17**	1,501
	$ 928,175	$ 709,455

Corporate Information
EYELOGIC SYSTEMS INC.

DIRECTORS

Richard K. Skauge
Mark McDonald
Charles Chebry [1 2 3]
Dr. Alan Dyer
Dewar McCarthy
Donald Smith [1 2 3]
Gordon Angevine [1 2 3]

OFFICERS

Richard K. Skauge
Chief Executive Officer

Mark McDonald
President

Dewar McCarthy
Chief Financial Officer

Mary Anne Elias
Vice President, Marketing

BOARD COMMITTEES

1 Audit Committee
2 Corporate Governance Committee
3 Executive Compensation Committee

HEAD OFFICE

Suite 160a, 340 Midpark Way SE
Calgary, AB T2X 1P1
Tel: 403-264-5896
Fax: 403-264-9740

Website: www.eyelogic.com
Email: info@eyelogic.com

TRANSFER AGENT

Olympia Trust Company
2300, 125-9 Avenue SE
Calgary, AB T2G 0P6
Tel: 403-261-0900
Fax: 403-265-1455

AUDITORS

Kenway Mack Slusarchuk Stewart LLP
Chartered Accountants
220, 333 – 11th Avenue S.W.
Calgary, AB T2R 1L9

STOCK EXCHANGE LISTING

TSX(V): EYE.A

EYELOGIC SYSTEMS INC.
Seeing the future...

Suite 160A 340 Midpark Way S.E.
Calgary, Alberta T2X 1P1
Phone: 403.264.5896 Fax: 403.264.9740
email: info@eyelogic.com Web site: www.eyelogic.com